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BULLETIN: **2008-KDCU-CUB-01**

TO: **Management of Kansas chartered credit unions**

SUBJECT: **Elimination of the CAMEL Matrix**

The National Credit Union Administration (NCUA) by Letter No. 07-CU-12 issued in December 2007, modified the CAMEL Rating System (CAMEL) by eliminating the CAMEL Matrix (Matrix). The Matrix measured financial ratio results against benchmarks for three CAMEL areas: Capital Adequacy, Asset Quality, and Earnings. This change is effective with Kansas examinations and supervision contacts with December 31, 2007, effective dates and thereafter. For additional CAMEL background information please read NCUA Letter No. 07-CU-12.

The CAMEL rating system is a lagging indicator of credit union performance. The risk focused examination implemented in 2002 is a forward looking performance indicator that requires credit unions to measure, monitor, and control risk relative to strategic plans and goals rather than meeting predetermined ratio benchmarks. The CAMEL rating will continue to be disclosed at the conclusion of the credit union examination by the examiner. What will change is the examiner will no longer have benchmarks to use in the determination of the rating in three CAMEL areas: Capital Adequacy, Asset Quality, and Earnings. The examiner always had the discretion to depart from the benchmarks in the determination of the three ratings.

The examiner will continue to focus on and report the risk using the forward looking perspective of the risk focused examination. Seven risk categories (credit risk, interest rate risk, liquidity risk, strategic risk, compliance risk, reputation risk, and transaction risk) are reviewed for significance of ratios, trends, projections and interrelationships. The seven risk categories are assessed a level (high, moderate, or low) reflecting the current and prospective risk to the credit union.

We agree with the elimination of the CAMEL Matrix as some credit unions may target and measure performance against the Matrix rather than focus on broader forward looking risk management. Targeting CAMEL benchmarks in the Matrix can lead to unsafe and unsound goals and may lead to poor business decisions. CAMEL ratings based on the Matrix tend to be static while focusing on the seven risk categories will provide credit union management the ability to manage based on strategic goals.

Examiners will continue to look beyond current financial conditions and evaluate management's ability to recognize and adapt to changing economic conditions, competitive environments, and risk profiles. Examiners will continue to disclose to management the CAMEL rating and the assessment of risk in the seven risk categories at the conclusion of the examination.

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